

Kentucky Agricultural Finance Corporation

Meeting Minutes

January 23, 2004

The Kentucky Agricultural Finance Corporation met at 9:30am on January 23, 2004 in the Kentucky Department of Agriculture Conference Room, 188 Capitol Annex in Frankfort, Kentucky.

Members Present:

Ms. Sandy Ross; Dr. Harold Benson; Ms. Annette Crawford Walters; Mr. Wayne Hunt; Mr. Bob D. Proffitt; Commissioner Richie Farmer; Mr. Billy Joe Miles; Mr. Doug Lawson; Secretary Robbie Rudolph; Mr. Charles Miller

Members Absent:

Mr. Billy Hurd; Ms. Jane Jones

Governor's Office of Agricultural Policy Staff Present:

Mr. David Bratcher; Mr. Bill McCloskey; Ms. Edith Fultz; Mr. Keith Rogers

Guests:

Mr. Bruce Cline; Mr. David Wimpy; Mr. Phillip Garnett; Ms. Shana Herron; Mr. Dwight Hughes

Annette Crawford Walters – called the meeting to order, announced that the press was notified of this meeting and asked the secretary to call the roll.

Ms. Walters – asked the members to introduce themselves to Commissioner Farmer. The membership gave introductions.

Commissioner Farmer – introduced himself and Patrick Jennings, Chief of Staff of Kentucky Department of Agriculture (KDA) and expressed pride in the staff he has hired to work in the KDA.

The guests also introduced themselves.

Ms. Walters - welcomed everyone and opened the floor for nominations of Chairman and Vice Chairman of the Kentucky Agricultural Finance Corporation (KAFC).

Mr. Wayne Hunt – nominated Agriculture Commissioner Richie Farmer as Chairman and Ms. Annette Crawford Walters as Vice Chair; Mr. Doug Lawson seconded the nominations; the nominations passed unanimously.

Commissioner Farmer – expressed that it is an honor and a privilege to serve as Chairman of this board; he looks forward to working with this group and thinks that the KAFC can do a lot for agriculture in Kentucky. He commented further on the \$17 million the administration wanted to use to help balance the budget and explained that he, Wayne Hunt, Keith Rogers, Billy Joe Miles and some other farmers fought to keep this money for the KAFC.

Mr. Keith Rogers – Introduced himself and expressed his appreciation for being chosen by Governor Fletcher as Executive Director of the Governor's Office of Agricultural Policy (GOAP). He invited the board to share thoughts and ideas on new directions for the Kentucky Agricultural Finance Corporation.

He also commented on the recapturing of the \$17 million. He reiterated Commissioner Farmer's comments on this and complimented the board members involved for their success in expressing to the Governor the concerns they had and reminding him of his commitment to the 50% to the Agricultural Development Fund (ADF). He noted the Governor will present his budget for the next biennium on January 27. There will be authority for a \$17 million bond issue in that budget, the proceeds of which will be returned to KAFC. The Commonwealth of Kentucky, not KAFC, will actually sell the bonds. Debt service for the bond issue will come from the General Fund, not Agricultural Development Funds. In fact, the Governor has promised to veto any budget bill that used Agricultural Development Funds as debt service for the bond issue. Assuming the General Assembly approves the bond issue, the KAFC loan fund would then be made whole.

It is unclear whether the bonds would be issued in FY 2005 or FY 2006. This will be determined in the budget finally adopted by the General Assembly which will authorize both the bond issue and the funds to service the bonded indebtedness. Assuming the authority and debt service are in place in the next biennium, KAFC and the Budget Office will need to establish the time line for availability of funds to KAFC. In the interim, the remaining \$3 million has been transferred to the KAFC account and is available for the board to use for project funding.

Mr. Doug Lawson commented on the staffing issue and how this is going to be organized as we were going to be using interest and dividends to be self- supportive. Mr. Rogers responded that GOAP and the Executive Branch is staffing the KAFC at this time under the agreement between the Agricultural Development Board (ADB) and KAFC. He stated that right now the ADF actually covers the costs of KAFC administration. Commissioner Farmer reiterated that the Governor expressed his willingness to work with us to make sure the funding would be available before July 1st, if the board approves a project that exceeds the \$3 million we now have. He commented further on the Governor's commitment to agriculture. Ms. Walters asked if

the \$17 million bond would be sold all at one time. Mr. Rogers responded that those details haven't been worked out yet.

Old Business:

David Bratcher – Welcomed the members and guests in attendance. He offered an overview of the KAFC and how KAFC had been reestablished as a result of the Agricultural Development Board's long-term plan. He noted the broad legislative authority afforded to KAFC and reviewed the three programs established by the KAFC board in 2003.

He referenced the last board meeting's discussion regarding depositing the \$20 million loan fund at Farmers Bank in Frankfort. Since that meeting discussions with the former Secretary of the Finance Cabinet and the Governor's Budget Office, have resulted in a decision to keep the KAFC funds in the Commonwealth's accounting system rather than moving the money into an account at Farmers Bank specifically for KAFC. The funds set aside in a state account still will be segregated for KAFC and all earnings still will go into the KAFC account. We have been able to work through some of the concerns we had earlier about the ability to move the money, on a timely basis, out of the state system, part of the concern for establishing the unique account at Farmers Bank.

Mr. Bratcher also explained the Linked Deposit Program. Currently the Linked Deposit Investment Program is administered by KDA. The most recent information, for the fiscal year ending June 30, 2002, indicates the agricultural component of the Linked Deposit Loan Program provided about \$6 million for agri-business loans. He noted that a program called Kentucky's Affordable Prepaid Tuition (KAPT) also accesses the same funds that support the Linked Deposit Program. KAPT takes priority over the dollars, which will determine how much is available for Linked Deposit. Mr. Bratcher explained that there have been a couple of loan applications in the last six months submitted to KDA which have been funded.

Mr. Bratcher distributed proposed legislative changes to the KAFC enabling legislation to be introduced during the 2004 Regular Session of the General Assembly. He reviewed HB 541, introduced during the 2003 Regular Session. The 2004 legislation will mirror HB 541, as it relates to corporate powers, although there is discussion as to whether the existing statute is broad enough to allow for stock ownership by KAFC. If it is determined the corporation does not have this authority in the existing law, that change will be reflected in the new bill. Ms. Walters asked if loans in the legislation will be available only to individuals, not corporations or partnerships. Mr. Bratcher referenced the bill explaining any person is broadly defined to include LLC's, partnerships, etc. Mr. Biff Baker concurred and explained that unless the person is specifically defined it defers to the universal definition, which includes partnerships, corporations, or any business entity. Person could mean all of that.

There was discussion regarding the Linked Deposit agricultural loan program which is available only to farmers. Just as with HB 541, the proposed legislation would move the

day-to-day administration of the agricultural component of the Linked Deposit program from KDA to KAFC. Processors would qualify for the small business component of the program. As such, applications for assistance are processed by the Economic Development Cabinet. There hasn't been a lot of activity in the Cabinet with the Linked Deposit program.

Ms. Walters - brought attention to page 4, 3-C the use of the term fixed. Mr. Bratcher explained that with Linked Deposit, the rate is fixed for the term of the loan, but there is always going to be a 300 basis point spread locked in from the state. He offered an example, if the borrower is locked in at 5%; the state is also going to lock our return on our investment. There was further group discussion.

Ms. Sandy Ross – asked if this program would be funded from the \$3 million in KAFC. Mr. Bratcher responded explaining that the funds will still come from the abandoned property account overseen by the State Treasurer. The Treasurer and the State Investment Commission will make a determination of how much money they need to set aside, first to take care of the rightful owners of abandoned property, second how much they need to set aside for the KAPT program. What's left is the money that would be made available for Linked Deposit. To date applications that have been sent to the Investment Commission, there has been no problem with the State Treasurer funding those requests. There was further group discussion.

Mr. Bratcher – explained that KRS 247 is the enabling legislation for KAFC. He explained that we expanded the definition of applicant. He explained the definition of First Time Farmer as defined by the Internal Revenue Code. That is the section of the law that deals with Aggie Bonds. He added that First Time Farmer and Young Farmer is one in the same. There was further comments and discussion by the group.

Mr. Bratcher – commented on delineation of roles and responsibilities of the KAFC, ADB, GOAP and the KDA.

Mr. Rogers – referenced page 9 section 6 explaining that this is a change from HB 541. He explained that during discussions with Commissioner Farmer and Mr. Jennings, they requested that this be deleted so that if the Commissioner cannot attend a meeting, he can designate someone to serve in his absence. He added that he has not discussed this with Rep. Roger Thomas at this point.

Mr. Bratcher added that we would also have a change in the section where it states the Commissioner will in fact be the Chairman of the Board, but annually the Board still would elect a Vice-Chair. Mr. Rogers also noted that we will align the language in section 6, where it talks about staff, Executive Director, etc. We are going to align that with HB 611 language for the ADF so they are identical. He explained that Representative Thomas has indicated that he has interest in providing language that in essence says the Executive Director of one is going to be both. Mr. Bratcher pointed out that we want to get concurrence from the Board as this is essentially taking away the authority to hire an Executive Director. Under existing Statute, the Board has the authority to hire an Executive Director. He explained that we would have one Executive

Director who would be the same person as the CEO of the ADB. From our perspective, this is less duplication of effort. Commissioner Farmer concurred, stating that this would coordinate the efforts of the ADB and the KAFC.

Mr. Miles questioned the commitment to this legislation. Mr. Rogers responded that Representative Thomas is very interested in introducing this and is very supportive. He added that the Governor has indicated that he is ready to do this and this is the way he wants to go. Mr. Rogers has not yet had a meeting with Senator Harris but hopes to do this on Monday. He has also been asked to meet with Senator McGaha on this. Mr. Bratcher added that Mr. Royalty and he met with Senator McGaha before Mr. Royalty retired, talking about the changes receiving general support. Mr. Hunt questioned if Mr. Rogers has had any conversation with Senate Leadership. Mr. Rogers responded that he has had a conversation with Legal Council on the Senate side. He has not had a conversation with the Senate members. Ms. Walters questioned Mr. Rogers as to who actually hired him. Mr. Rogers responded that he is appointed by the Governor as Executive Director of the Governor's Office of Agricultural Policy. The ADB took action at the December meeting to appoint him as CEO of that board. There was further discussion and explanation.

Commissioner Farmer called for a motion for approval of the Minutes of the November 14th meeting. Mr. Miles made the motion; Ms. Walters seconded the motion. The minutes were approved.

New Business:

Commissioner Farmer – ask the Board members for their thoughts and ideas on the direction of KAFC. Mr. Hunt commented that there are two or three things we had in mind to accomplish with the First Time Farmer being a plus. KAFC should be an agricultural economic development program. Secretary Rudolph concurred and added that we need to change the atmosphere that it is economic development. Mr. Hunt emphasized that so much of the Economic Development funds are based on the number of people you employ and we cannot have this same criteria. Commissioner Farmer suggested that from an economic development standpoint we start looking at the impact it is going to have on the state's economy, not on the number of people employed. Secretary Rudolph added that economic development has been based on manufacturing jobs. Commissioner Farmer told us that KDA has created an office of Agribusiness Recruitment. He explained further. Mr. Hunt commented that our gauge should be the turn of the dollar, not the number of people employed. There were further comments. Mr. Jennings suggested we be proactive. Mr. Bratcher added that a lot of value-added processors are not necessarily outside the boundaries of the state. We have a lot of small producers ready to add value. One of the things discussed with Representative Thomas and the Rural Task force was reducing the threshold job number from ten to five, when allowing a agricultural value-added processor to participate in the tax credit programs offered by the Economic Development Cabinet.

Ms. Walters questioned where we send people to for this assistance. Mr. Bratcher responded that this is one of the things we have to work out with KDA and the Economic Development Cabinet.

Dr. Benson added that we need to focus on value-added incubator initiatives. He referenced small scale producers who don't know how to do a business plan. He suggested a first time marketing initiative.

Mr. Miles questioned who will coordinate this in the KDA. Mr. Jennings responded that they have not filled the position yet. He emphasize that they do have good candidates for this position.

Mr. Miles offered comments on genetically engineered products not having a market. Commissioner Farmer responded that we need to be open-minded, have vision and be willing to listen. There were further comments.

Doug Lawson – referenced the committee structure and suggested more activity during the month by those committees. There was group discussion.

Mr. Miller – commented that if you polled each member of this group individually this discussion would be mirrored by everyone. The original excitement about being on this board is the fact that it could accomplish so much for agriculture that the ADF has started but cannot complete. It is exciting that the KDA shares the vision that we can go out and recruit some entities to come into this state. He referenced the point made by Mr. Miles and Mr. Hunt, that as we go out and seek people, one of the criteria should be that they need to be committed to Kentucky agriculture. Commissioner Farmer – commented that we must all work together toward this goal.

Mr. Rogers – thanked Secretary Rudolph for his participation.

Next Meeting Date:

The next meeting is scheduled for 9:30 am on March 12, 2004

Adjourn:

Commissioner Farmer – called for a motion to adjourn. Wayne Hunt made the motion; Dr. Benson seconded the motion. The meeting adjourned at 11:30am.

APPROVED: _____

PRESIDING OFFICER: _____

SECRETARY: _____